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Custodial Account Instructions

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Custodial Account Instructions

1. **Custodial Account Requirement:** All market agencies selling on a commission basis are required by section 201.42 of the regulations issued under the Packers and Stockyards Act to establish and maintain a separate bank account designated as "Custodial Account for Shippers' Proceeds." The account must be used to maintain and disburse all funds due to consignors from livestock sold on a commission basis. All checks to consignors in payment of the net proceeds from the sale of consigned livestock must be issued on the custodial account.
2. **General Bank Account:** The market agency must have a separate bank account for general and operating expenses and for livestock purchases on a commission basis or as a dealer. The custodial account cannot be used to pay operating expenses or to pay for any livestock purchases.
3. **Trust Accounts:** The custodial account is a trust account and the bank must be informed that the depositor (market agency) is acting as a fiduciary and that the funds in the account are trust funds.
4. **FDIC Bank:** Custodial accounts must be maintained in FDIC-insured banks. To enable each shipper to have FDIC coverage, the selling agency must have the account properly labeled as a "custodial account for shippers' proceeds," both in its books and in the bank records. Also, the names of those shippers having an interest in the account and the amounts which are due each consignor must be clearly disclosed in the records of the market agency in whose name the custodial account is maintained.
5. **Custodial Account Checks:** Custodial account checks must be serially numbered and should be imprinted with the name of the market agency and the wording "Custodial Account for Shippers' Proceeds" on the face of the check. Checks of a different color from the general account checks will help avoid bank errors. The designation "Custodial Account for Shippers' Proceeds" should also appear on the bank records and bank statements.
6. **New Account—Initial Deposit:** When a new custodial account is opened, the market agency should make an initial deposit of its own funds unless arrangements can be made for the bank

to honor the first checks presented. When the bank balance has built up sufficiently to cover checks, the initial deposit may be withdrawn.

7. **Deposits to Custodial Accounts:** All money received on sale day from buyers in payment for livestock sold on a commission basis must be deposited directly to the custodial account before the close of the next business day after the sale day. Further, the custodial account must be reimbursed before the close of the next business day after the sale for any proceeds due for livestock sold to the market agency, an owner, officer or employee of the market agency, or any buyer to whom the market agency has extended credit. All money received thereafter in payment for livestock sold on commission must be deposited directly to the custodial account until the account has been reimbursed in full. The account must be reimbursed, in full, within 7 days after the sale day whether or not the proceeds receivable have been collected. (See exhibit B.)
8. **Proceeds Receivable:** Proceeds receivable are receivables due the market agency from the sale of consigned livestock that were not paid on the day of purchase. To be classified "proceeds receivable" rather than "accounts receivable," each of the following conditions must be met:
 - (a) no agreement has been entered into with the buyer under which the buyer has been relieved of the duty to transmit or deliver to the market agency the full amount of the purchase price by the close of the next business day following the purchase of livestock;
 - (b) the receivable has not remained uncollected for a period of more than 7 days after the date of sale; and
 - (c) the receivable is not due from the market agency, any of its owners, officers, or employees.
9. **Withdrawals From Custodial Account:** The custodial account can be used to pay only the net proceeds due to consignors, to pay for lawful charges from consignors' invoices, and to pay the charges due the market agency as compensation for its services. Charges for commissions, yardage, and other services which have been deducted from the account of sale and are due the market agency should be totaled at the end of each sale day and transferred to the general account. Miscellaneous charges against a consignment (trucking, brand

and health inspection fees, meat board, etc.) which have been deducted from the sales proceeds may be paid directly from the custodial account.

10. **Savings Accounts—Investments:** Custodial account funds may be maintained in interest-bearing savings accounts or invested in one or more certificates of deposit to the extent the market agency's ability to meet its obligations to its consignors is not impaired. Any such savings account or certificate of deposit must be properly identified as being part of the custodial account and maintained in the same bank as the custodial account.
11. **Custodial Account Cannot Be Used To:**
 - (a) Pay general expense items of the market agency such as salaries, rents, supplies, repair of facilities, owners' personal withdrawals, etc. (Such checks should be written on the company's general account.)
 - (b) Make advances on livestock received on consignment or make advances for the purchase of livestock;
 - (c) Pay for livestock purchased by owners, officers, employees, or anyone else;
 - (d) Finance buyers by allowing a period longer than the period specified in section 409 of the P&S Act.
12. **Custodial Account Analysis:** (See exhibit A.) It is essential for the market agency to know that its custodial account is in proper balance at all times. To make that determination, the market agency *should make at least a monthly reconciliation and analysis of its custodial account and retain it as part of its books and records.* All other bank accounts should also be reconciled monthly.

Exhibit A

How to Analyze a Custodial Account

Steps to determine if your custodial account is in balance:

1. Obtain monthly custodial bank statements together with honored or paid checks (or other evidence of checks paid if the bank does not return paid checks) as of the book closing date.
2. Sort or arrange paid custodial checks in serial number order. Voided checks should not be destroyed, but retained and placed with the paid checks in serial number order.
3. Determine which checks have been issued but not cashed (outstanding checks) by comparing checks which have cleared with check register, check stubs, or carbon copies of checks written. Mark off those checks which have cleared. Market agencies should periodically contact consignors that have not cashed their checks to close the account of old outstanding checks. If necessary, new checks should be issued to consignors to replace checks.
4. List the check number and amounts of all checks issued but not cashed and obtain total amount of outstanding checks. All outstanding check lists should be retained in the company records and identified as "Outstanding Custodial Checks (month) (year)."
5. Maintain an accurate record of all purchases by buyers, showing amounts and dates when moneys are received. At time of analysis, list buyers' names and amounts of all uncollected items and obtain total receivables. Amounts outstanding up to seven (7) days after the day of sale are considered "Proceeds Receivable." If, for any reason, an account remains unpaid after this period, it becomes an "Account Receivable" rather than a "Proceed Receivable" and the "Custodial Bank Account" should be paid by depositing a check in that amount from the market agency's "General" bank account. When the delinquent account is paid, it may then be deposited in the market agency's "General" bank account. If livestock is purchased for any reason by the market agency, owners, officers, or employees of the market agency, the purchase price should be paid by the close of business on the day following the sale of such livestock. Such amounts are not to be considered as

proceeds receivable if not paid by this time. If a market agency agrees to extend credit to a buyer, the market agency must deposit its own funds in the custodial account before the close of the next business day after the sale.

6. All cash or checks received from the buyers which have not yet been deposited should be shown on the analysis as "proceeds on hand."
7. All deposits in the mail or in the bank, but not recorded on the bank statement, should be listed in the analysis as "deposits in transit." The deposit slips for custodial account deposits should contain the name of each buyer opposite the itemized amounts on the deposit slips.
8. The custodial account is in balance if the bank balance plus deposits in transit, custodial funds invested in certificates of deposit and/or savings accounts, proceeds on hand, and proceeds receivable are equal to the outstanding checks, proceeds due consignors for which checks have not yet been issued, and unpaid expense items remaining in the account.

Balance as per bank statement	\$ _____
Deposits in transit (in mail or bank, but not on statement)	_____
Certificates of deposit and savings accounts designated as custodial funds and purchased from bank carrying custodial account	_____
Proceeds on hand	_____
Proceeds receivable	_____
Total Debits	\$ _____
Outstanding checks and drafts which have not cleared the bank	_____
Proceeds due consignors of livestock for which checks have not yet been issued	_____
Unpaid expense items deducted from consignors' proceeds remaining in account.	_____
Total Credits	\$ _____
Overage or shortage (if any)	\$ _____

Exhibit B
Chart of Required Deposit Dates to
Custodial Account

Sale day	Deposit day for funds	Deposit day for funds due from all other buyers
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday
Friday	Saturday*	Friday
Saturday	Monday	Friday**

- * If Saturday is a nonbanking business day in the particular location, Monday is the next banking business day.
If the day of deposit falls on a business holiday, the next banking business day is the deposit date.
- ** Unless Saturday is a banking business day in the particular location.

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Notes

